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## DIRECTORATE OF INTELLIGENCE

2 September 1986

Japan: Flirting with Vietnam? 

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## Summary

Economic reformists in Hanoi realize that Western loans, aid, and technology are essential to reviving Vietnam's faltering economy, and if they remain influential, Japan is likely to be a major target of efforts to attract Western assistance. Following the Vietnamese invasion of Cambodia, the Japanese Government supported ASEAN's call for troop withdrawal and suspended economic aid to Vietnam. With a strong strategic and economic relationship with ASEAN, Tokyo maintains only limited ties to Vietnam and is unlikely to get out ahead of ASEAN, the United States, and China by extending economic aid to Hanoi. The Japanese private sector, however, already plays an important role in Vietnam's economy, providing Hanoi with hard currency earnings, necessary equipment for its exports, and import credits. Both the government and private sector remain poised to move quickly to improve relations in the event that the Cambodia issue is resolved.

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### **Vietnamese Overtures**

The death of Party Chief Le Duan and resulting changes in Vietnamese leadership expected to be announced at the Sixth Party Congress late this year could give renewed impetus to Hanoi's efforts to reform its troubled economy. In our view, successful agricultural experiments in southern Vietnam and the growing recognition by Hanoi of the need to try a new approach to economic management may tip the balance in favor of the reformers in the succession struggle. The reformers advocate using incentives to stimulate production as well as decentralizing management of enterprises and permitting some private ownership of small businesses. They also would probably step up efforts to use a new foreign investment code designed to attract Western money. [ ]

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If the pragmatists do gain the top positions, Japan is certain to be a major target of Vietnamese efforts to gain Western funding and technology. Indeed, Hanoi is already looking to Japan for such assistance. [ ] the Vietnamese Ministry of Foreign Trade issued a directive last spring urging Vietnamese companies to try to induce Japanese business to invest money and technology to improve the quality of their exports, such as textiles and rubber. Hanoi also wants Japanese companies to provide funding and equipment--and thus reduce dependence on the Soviet Union--for its offshore oil development. Given Tokyo's large economic aid budget, Hanoi may hope that economic reforms would soften Tokyo's decision to suspend aid in the wake of the Vietnamese invasion of Cambodia in 1978. Most in Hanoi recognize, however, that it will be difficult to obtain Japanese aid until Vietnamese forces are withdrawn from Cambodia. [ ]

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### **Tokyo's Double Track Approach**

Although Tokyo considered adopting a "balanced" approach toward Vietnam and ASEAN following the fall of Saigon in 1975, its far more important equities in non-Communist Southeast Asia tilted Japan toward ASEAN. Tokyo considers Southeast Asia a region of critical strategic importance, with vital sea lanes for transportation of goods to and from Japan. After Vietnam's invasion of Cambodia, Japan came to share ASEAN's belief that the Indochina conflict, with its linkage to Sino-Soviet rivalry, threatened the stability of the entire region. In addition to condemning the Vietnamese action, Tokyo showed support for ASEAN by pledging not to give economic aid to Vietnam until all troops were withdrawn from Cambodia. [ ]

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Japan's large economic stake in ASEAN also was a factor in Tokyo's decision to side with those states. Trade with the five ASEAN states accounts for about 11 percent of Japan's total trade, or slightly more than trade with the 12 members of the European Community. By comparison, exports to Vietnam total only 0.1 percent of Japan's total exports and imports are negligible. Nearly 18 percent of Japan's overseas direct investment is in ASEAN, reflecting in part Indonesia's and Malaysia's roles as major suppliers of raw materials and fuels. Because of its economic and strategic interest in

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ASEAN, Japan allocated about \$800 million in development assistance to the region, over one-third of its annual appropriation. [ ]

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Reflecting its strong support for ASEAN, Tokyo has made only limited efforts to maintain ties to Vietnam. The Foreign Ministry has continued to exchange visits with Vietnamese officials, such as the Asian Affairs Deputy Director's trip to Hanoi in July. Tokyo has also given token amounts of cultural and humanitarian aid since the invasion. The Japanese have provided technical assistance, involving training of Vietnamese students, but the number of Vietnamese students is relatively small compared with those from ASEAN. (See chronology) [ ]

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The Foreign Ministry rationalizes its policy of keeping open the lines of communication to Vietnam by arguing that isolating Vietnam will only strengthen Hanoi's dependence on the Soviet Union. Moreover, the Ministry doubts that isolation will convince Hanoi to withdraw from Cambodia. According to the US Embassy in Tokyo, the Foreign Ministry official in charge of Indochina policy has stated that time is on the side of the Vietnamese and against the non-Communist resistance in Cambodia. The view, which reflects an important working level perspective, is not a new one in the Foreign Ministry, and also has its roots in previous Japanese efforts in the 1970s to serve as a self-styled bridge between ASEAN and Hanoi. Some in the Foreign Ministry appear to believe it would be in the best interest of Japan, the United States, ASEAN, and China to strike a deal with Vietnam--perhaps even accepting the status quo--in the near future. Tokyo recognizes it has no role to play in a Cambodian settlement for the present, but such sentiments suggest it still hopes eventually to play one. [ ]

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### **Role of the Japanese Private Sector**

We believe Japanese private sector involvement in Vietnam has been tempered by Tokyo's policy of adhering to the US and ASEAN aid embargo and its denial of official export credits following the invasion of Cambodia. Tokyo, moreover, provides only short-term export insurance to companies doing business with Vietnam. According to trade journal reports, despite Vietnamese incentives for Japanese participation in offshore oil development, private firms remain reluctant to provide large-scale funding without financial backing or guarantees from the Japanese Government. Vietnam's poor economic situation has further limited its attractiveness as a trading partner. Indeed, various reporting indicates that only a handful of trading companies--such as Mitsubishi, Nissho Iwai, Mitsui, and C. Itoh--are operating in Vietnam. [ ]

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From the Vietnamese perspective, the bilateral trade relationship is important. Over the last several years Vietnamese exports to Japan--which provide nearly half of Hanoi's hard currency earnings--have grown to \$62 million in 1985. (see figure 1) In hopes of expanding trade even further, the Vietnamese Government has agreed to allow Nissho Iwai to open the first resident trade office of a Western company in Hanoi by the end of August. Vietnam also relies on Japan to supply necessary machinery and equipment maintenance for some of its key exports such as coal and shrimp. Much of the trade is conducted through barter. But Japanese banks and companies, unlike their counterparts in most other Western countries, also have been willing to provide credit.

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Last year, for example, Mitsubishi Corporation doubled its credit line to Vietnam to \$120 million, and Nissho Iwai approved a Vietnamese request for a \$40 million loan to purchase Japanese machinery and equipment. [REDACTED]

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These trading companies appear to want to keep their presence in Vietnam, despite Hanoi's current debt problems, in hopes of making long-term gains. If Hanoi can effectively implement the proposed foreign investment law and dismantle some bureaucratic roadblocks--a big "if" in our view--the Japanese are likely to try to make use of Vietnam's cheap labor force. Furthermore, trading companies that specialize in infrastructure development want to maintain access to the Vietnamese market in order to be well positioned to receive contracts should the current aid embargo be lifted. Opportunities in this area could include port development, irrigation dams, and electric power plants. Even then, however, these opportunities pale compared with the attraction to the ASEAN market. [REDACTED]

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#### **Outlook: Will Tokyo Change its Position?**

In Tokyo's almost annual discussion and policy review on resuming economic aid to Vietnam, the Foreign Ministry officials responsible for relations with Indochina are certain to continue to present arguments in favor of providing Japanese aid to help resuscitate Vietnam's economy and to give Hanoi's new leadership incentive to moderate its behavior. Japan's response to other regional issues would suggest, however, that Tokyo weighs reactions to hints of Japanese policy departures from ASEAN, Beijing, and Washington with great care and will continue to do so before moving closer to Vietnam. The Japanese clearly recognize the strategic importance of the US-ASEAN-Japan relationship. Tokyo's concern over increasing trade frictions with ASEAN, Beijing, and especially Washington would probably lead it to calculate that it is not worth adding other tensions in these connections for the sake of improved ties to Hanoi, at least in the short run. [REDACTED]

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In the longer term, if Vietnam's economic reforms are successful, Tokyo's discussions on resuming aid may become more active--although an improved economy by itself is not likely to tip the balance in favor of resuming aid. Japanese trading companies interested in project contracts and oil development in Vietnam, who would clearly profit if the government extended aid, will probably lobby more strongly for resumed aid. [REDACTED]

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[REDACTED] But the decision to resume aid is not made solely by bureaucrats who sympathize with the business view; thus it would have to clear major political hurdles. In our view, absent a change in the US and ASEAN position toward Vietnam, we doubt Tokyo will provide major new aid before the Cambodian issue is resolved even if the reformers come to power in Hanoi. [REDACTED]

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Selected Chronology

Visits

3/83 Foreign Minister Ha Van Lau to Japan  
5/83 Prime Minister Nakasone tours ASEAN  
12/83 Foreign Ministry Asian Affairs Director General to Vietnam  
10/84 Foreign Minister Nguyen Co Thach to Japan  
1/85 Former Foreign Minister Sakurauchi to Vietnam  
(also chairman of Japan-Vietnam Parliamentary League)  
7/85 Deputy Foreign Minister scheduled to go to Vietnam;  
Asian Affairs Director goes instead  
7/86 Asian Affairs Deputy Director to Vietnam

Humanitarian and Cultural Aid

1981 \$130,000 humanitarian aid to Choray Hospital  
1982 \$100,000 typhoon disaster relief  
1984 \$85,000 cultural grant for language lab  
1985 \$85,000 emergency humanitarian aid for encyphalitis  
1985 \$200,000 typhoon disaster relief

Technical Assistance

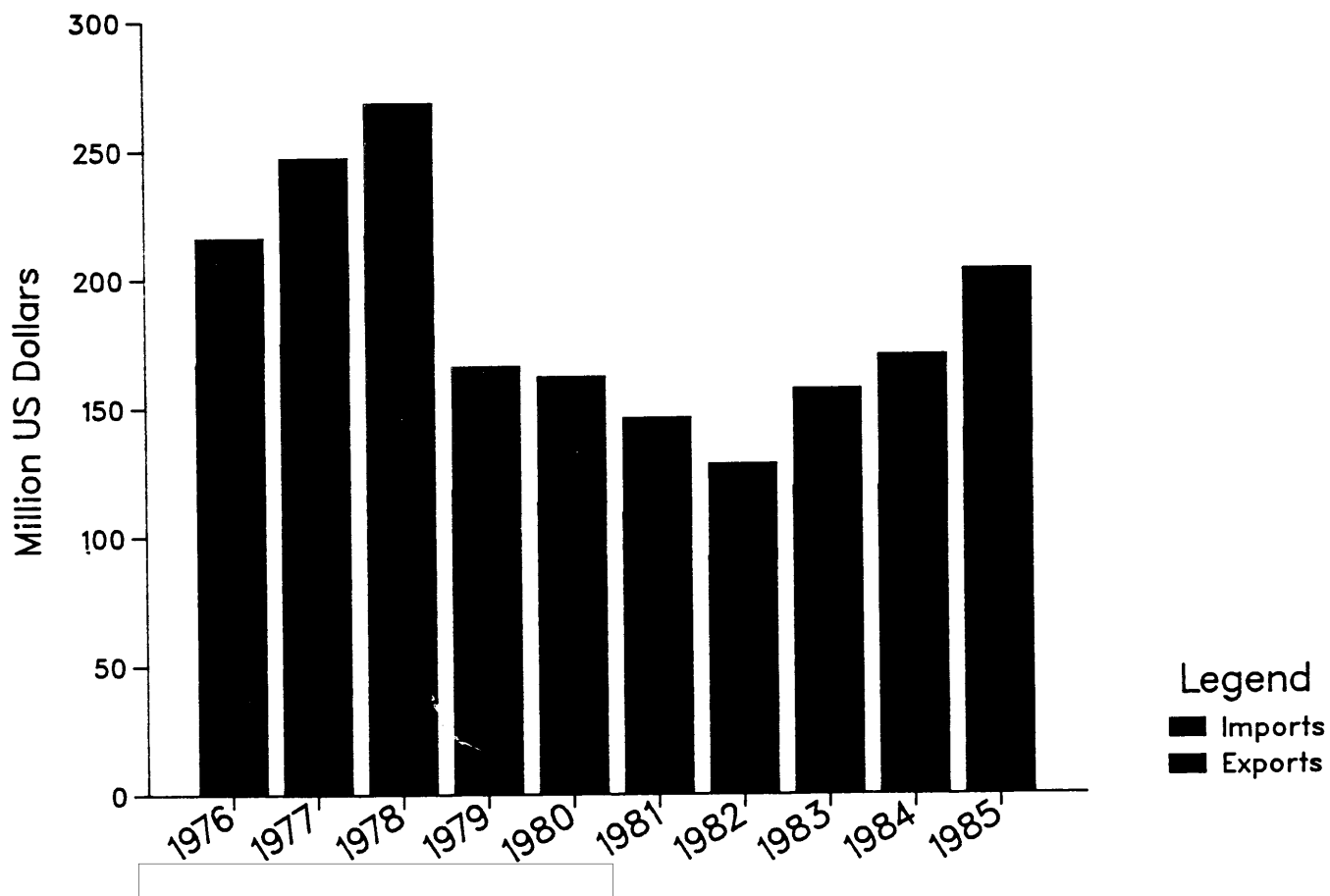
1982 Dispatch of 6 JICA experts (Japan International Cooperation  
Agency)  
1983 Equipment for Choray Hospital  
1983 Dispatch of 1 JICA expert  
1984 Acceptance of 13 trainees

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Figure 1

## Japanese Trade with Vietnam



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